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SOCIAL CREDIT AND USURY by M. Oliver Heydorn, Ph.D.

One of the most common misunderstandings where Douglas Social Credit is concerned is the notion that the Douglas Social Credit diagnosis can be adequately summarized along the following lines: "The problem with the existing financial system is that the banks create money out of nothing in the form of bank credit and then proceed to charge interest on the money that they loan out. Unfortunately, they do not create the money to pay the interest and this leads to a continual build-up of unrepayable debts, etc., etc." This popularized interpretation of Douglas Social Credit is erroneous.

It is absolutely vital for people to understand that, in contradistinction to those monetary reformers who would focus all of our attention on the private creation of money and on the question of usury (however defined), the Douglas Social Credit diagnosis points in another and much deeper direction. While it is true that banks do indeed create the bulk of the money supply *ex nihilo* and in the form of interest-bearing debt, and while it is true that these practices can be problematic (largely on account of the *de facto* monopoly on money creation which the private banks, for all intents and purposes, currently possess), the financial system's most fundamental flaw has nothing to do with the private creation of the money supply nor with the charging of interest *as such*.

The core problem according to Douglas' analysis is that the financial system is inherently or structurally unbalanced; it generates prices at a faster rate than it distributes income. This difference in rates between total prices and total incomes typically manifests itself as a gap between consumer prices and consumer incomes, a gap that must be bridged in one way or another if the economy is to attain to a state of financial equilibrium and continue in operation.

The gap in question is not exclusively or even primarily caused by the charging of interest on bank credit. Indeed, if you were to restore the creation and issuance of all money to the state and forbid the charging of interest, the gap between consumer prices and incomes would still remain just so long as the standard conventions governing the financing of production and industrial cost accountancy were in place. While the charging of interest can exacerbate the gap between consumer prices and consumer incomes (insofar as bank profits may be held in reserve, re-invested, or used to pay down debts, or insofar as the money needed to pay the interest factor in bank profits cannot be easily or quickly redirected from other expense claims, etc.), the chief cause behind the gap has to do with real capital. The acquisition of real capital under existing financial conventions results in the building up of costs in the productive process for which no or an insufficient volume of consumer purchasing power has been distributed. By the time these capital costs come forward to be liquidated by the consumer in the prices of consumer goods and services, he does not have sufficient income derived from their production to be able to pay for them.

Furthermore, while it is likewise true that under the existing system the charging of interest can be a) *onerous* (insofar as having to pay interest may divert so much of one's income that day-to-day living becomes burdensome and one's legitimate needs cannot be adequately or easily met), b) *exploitative* (insofar as being forced or heavily pressured to borrow money under asymmetrical terms would not even exist if the economy and hence individuals automatically enjoyed adequate levels of consumer purchasing power), and c) *excessive* (insofar as one may be required to pay large, even incredibly large sums in interest that may exceed the amounts originally borrowed should one be unable to pay off one's debts relatively quickly), it is also true that the restoration of an automatic and self-liquidating balance to the financial system along the lines that Douglas Social Credit proposes, would do much towards eliminating these objectionable, i.e., usurious, aspects of the practice *even if* the charging of interest were to continue in a Douglas Social Credit economy. Distributing the compensatory flow of debt-free money to the consumer (*via* the National Dividend and the National Discount) would help to do away with the undue centralization of economic wealth and power that are associated with the present monopoly of credit by

putting an end to this monopoly. In other words, in a balanced financial system, the charging of interest would cease to be the kind of issue that it is today. Since it would cease to be the same kind of issue and since it is not the underlying problem in any case, the focus of monetary reformers should be on restoring a due balance to the circular flow and not on eliminating usury.

At the end of the day, private banks (which would continue to operate as the community's financial book-keepers and as regulators of private production under Douglas Social Credit) must be able to cover their legitimate costs and to make a profit in exchange for successfully promoting the real interests of the community by financing desirable (i.e., remunerable) production. They must therefore be entitled to levy fees in one form or another for their services.

Addendum: As noted by Wally Klinck in his comment to this article (see below), the fundamental crime of the present banking system does not consist in the charging of interest on monies created out of nothing *as such,* but rather in the fact that the recurring gap between consumer prices and consumer incomes (which would not exist if the financial system were an honest system, i.e., if it accurately reflected reality) allows the banks to lay an illegitimate claim to the beneficial ownership of real capital.

As we have seen, the gap is mainly due to the existence of real capital. Under current conventions we rely (in large measure) on the private banks to fill that gap by issuing additional loans to governments, businesses, and consumers. The increase in liquidity that the economy requires means that these compensatory loans will tend to be paid back more slowly than they are contracted, thus leading to an unrepayble and increasing mountain of debt upon which a tribute of steadily compounding interest must be paid. The tacit or implicit claim which the banks regularly make to the ownership of the credit that they create (by demanding that it be paid back) is, in this particular case, transformed into a kind of long-term, secure, and wholly illegitimate investment. To summarize: the debt-system has allowed the banks to indirectly appropriate the real capital for their own benefit since they are, given their monopoly on credit creation, the only ones who can compensate for the gap. In truth, the beneficial ownership of real capital (as opposed to the administrative ownership) actually rests with the aggregate of individuals who compose society since communal factors of production such as natural resources, the unearned increment of association, and the cultural heritage, are what have made the real capital possible. For this reason, Douglas Social Credit proposes that the additional bank debt that is presently used to fill the gap should be replaced with debt-free money that would be issued to the true beneficial owners of the real capital: the common citizens.

Addendum #2: On the principle that the financial system should reflect the physical reality of the economy as accurately possible, it would be eminently fitting if the fees that banks would charge under Douglas Social Credit on production loans (in order to meet their costs and to make a reasonable profit) would be referred to as 'service charges'. This would make it clear that the banks are being paid for their services and not for the money which they lend, as if that money had a value in and of itself. Money is not to be treated as an artificially scarce commodity under Douglas Social Credit, but rather as a mere numerical instrument, a ticket. ***

USURY, SOCIAL CREDIT, AND CATHOLICISM by M. Oliver Heydorn, Ph.D.

As I tried to show in the article above, the claim that usury, defined as the charging of interest on loans, is THE problem and that Douglas Social Credit means nothing more than “usury-free money” is a serious but all too common misrepresentation of the Douglas Social Credit diagnosis and remedial proposals.

Unfortunately, some people, upon learning that the banks create the money that they lend out of nothing, never recover from their initial shock so as to look at anything deeper.

It is certainly true that, under the existing system, the banks are not upfront – as they should be – about their money-creation activities. Whenever we take out a loan, for example, we are not provided with an opportunity to give informed consent. No one signs a release form stating “Do you clearly understand that the money that is being lent to you is created out of nothing by the bank and does not consist in hard-earned dollars that are being borrowed from some other depositor (who must now have to do without them so long as they remain on loan)?”

It is also true that, partially on account of the smokescreen that the banks are lending other people’s hard-earned money, the charges which the banks levy under the existing system can be and often are onerous, excessive, and/or exploitative for one reason or another. But these negative aspects of the present financial system are symptoms or consequences of a more fundamental problem, rather than constituting, in and of themselves, the heart of the evil.

The root of the economic problem is not to be found in the mere fact that the private banks create the bulk of the money supply *ex nihilo*, nor in the mere fact that they then proceed to charge interest on the monies that they loan out. The root of the economic problem has to do with policy. The financial system serves the wrong policy. Instead of facilitating to the greatest possible extent, the efficient delivery of those goods and services that people can use with profit to themselves, the conventional financial system centralizes wealth, power,

and privilege in the hands of those who have acquired monopoly control over financial credit. The policy which the private banks currently administer is a self-serving policy in lieu of what might be termed common policy: that policy which would serve the best interests of each citizen.[1]

It is crucial for people to understand that, apart from any question of profiteering or exploitation on the part of the banks, the financial system does not adequately reflect reality. As a result of existing banking and cost accountancy conventions, there is not enough producer credit to catalyze the production of all of the goods and services that people can use with profit to themselves and there is not enough consumer income liberated in the course of their production so as to purchase all of the goods and services that do arrive on the market and to liquidate all of their costs. This artificial scarcity of credit relative to the purposes independently determined by consumers is THE fundamental flaw of the existing system. Cf. ***Douglas Social Credit: A Simple (If Somewhat Lengthy) Explanation*** .

For this reason, eliminating the private creation of credit and the charging of interest would not, by themselves, guarantee that the financial system would operate in full service to the common individual. Indeed, one can imagine an interest-free system in which money-creation and its issuance, having been completely centralized in the hands of the state, is used to impose policy in every field of human activity (economic, political, and cultural) for the benefit of a ruling oligarchy. Such a financial system would be even more despotic and tyrannical than the existing one. If we do not wish to fall into the fire after having spent many centuries in the frying pan, our monetary reform efforts should be more concerned with achieving real or concrete individual benefit for all of the citizens of a country, rather than with doing damage to private banking.

This is not to say that usury – most broadly and properly defined as 'dishonest profit' in any form – is not a feature of the existing system or does not merit our concern. Any illegitimate transfer of wealth, power, and privilege from the common consumer to the proprietors of the banking system may be classified as a type of 'usury'.[2] It is precisely usury understood in this sense which allows for the centralization of economic benefits under the existing financial regime. Douglas' opposition to any and all forms of illegitimate transfer, as well as to the anti-social policy which underlies it, is on record for all to see:

The Anti-Social Character of the Reigning Financial Policy:

Finance has the power to impose a policy on the public, even if that policy is demonstrably anti-public in character.[3][T]he banks are so-called private institutions which administer this collective credit for their own ends, and those ends are by no means similar to the ends of the community of individuals from whom the credit takes its rise.[4][W]e have to realise that there exists, and is being exercised for anti-social purposes, a monopoly of the ticket supply....[5]The modern State is an unlimited liability corporation, of which the citizens are the workers and guarantors, and the financial system the beneficiary.[6]

The Illegitimate Transfer of Purchasing Power

As the situation stands at present, the banker is in an unique position. He is probably the only known instance of the possibility of lending something without parting with anything, and making a profit on the transaction, obtaining in the first instance his commodity free.[7][T]he root of the evil accruing from the system is in the constant filching of purchasing power from the individual in favour of the financier....[8]Banking, as it is presently operated, is: "the most colossal lucrative fraud that has ever been perpetrated on society."[9][T]he essential power which the banks have acquired is the power of the monetization and demonetization of real wealth. That is to say, the power of creating acceptable and accepted orders or demands upon the producing system and of destroying them on recall; and the essence of their fraud upon civilization is not in the magnificent technique of the system which they employ [i.e., creating money out of nothing - OH], or even in the charges which they make for the use of this money which they create, **even though these charges, i.e., their interest rates, may be considered in many cases exorbitant**.**The essence of the fraud is the claim that the money that they create is their own money, and the fraud differs in no respect in quality but only in its far greater magnitude, from the fraud of counterfeiting**. At the instigation of the banking system, barbarously severe penalties are imposed upon the counterfeiter of a ten-shilling note, but a peerage is conferred upon the counterfeiter by banking methods of sums running into hundreds of millions. [10]The banking system ... is the core of the monetary problem, and when I say this I particularly want you to avoid making the mistake of assuming that it is the profits of the banking system which I am attacking. **I think these profits are exorbitant**, but they are quite unimportant in comparison with the disastrous effects of the system itself which the bankers operate.[11] Mr. Murdoch – "You think it is a fair thing to dip into the reserves and profits of these banks and in a sense confiscate them?"Major Douglas – "I do not think it is a question of confiscation at all. There is a Spanish proverb which says, 'He who robs a robber earns a hundred year's remission.' and **I regard these undisclosed assets and many other assets as being quite unjustifiable**."[12]Before, then, each of the factories in the above illustration could

commence operation, it had to be built and equipped with machinery. There are two methods by which this operation could have been financed. The first is that it could have been financed out of savings, the method commonly suggested by orthodox financial authorities as that by which capital expenditure is financed. It is very questionable whether much modern finance is done this way. ...From the ordinary point of view, the people who put up the money are legitimately entitled not only to a profit on this money, but also to get it back again in full, since in their case the money may be assumed to represent past effort, so that the factories in question must make a charge on each article turned out which will provide the money to meet these claims. The only objection to this perfectly fair assumption is that, in the aggregate, the public have not got the money.The second method, and probably the method by which most modern financing is done, under cover of a smoke screen provided by comparatively small subscriptions from the public, is that some financial institution actually creates the money, taking debentures on the new factories as security. **Ethically, there is every difference between money created by a stroke of the pen and money acquired as the result of years of effort**, but I am not at the moment concerned with ethics. ... Secondly, there is no provision in this method of financing for the money required to pay the interest on the debentures, which, in fact, can only be paid, if it is paid, by the issue of fresh money to pay it, which, under existing circumstances, comes from the same source, that is to say, the financial system. From this point of view, **it is the difference between usury and profit – a difference clearly drawn in the Middle Ages**.[13]Stripped of its complications, the fact emerges that we live under a system not at all dissimilar to that of a commercial company with unlimited liability in which new debentures are constantly being issued and allocated free of charge to the financial system and its controllers, who take no risks and do no creative work. The general population is fundamentally in the position of wage earners, and the taxation upon them goes to pay the interest on these mortgage debentures. The income-tax authorities are in the position of accountants, and debt collectors acting in the interest of the debenture holders.[14]When the history of these times comes to be written, it will be regarded as almost incredible that the population of this or any other country making any claims to civilisation should have permitted the continuous levy in favour of financial institutions which now passes under the name of "taxation".[15]If the present system of taxation consisted, as it does, of an organized system of robbery but without any other objectionable aspects, it would, in all conscience, be unjustified.[16]

The Illegitimate Transfer of Ownership

The momentum of business induces business undertakings to carry on to a point considerably beyond that justified by their unmortgaged liquid resources, even assuming that their transactions have been financed normally in this way. As a result of this, and as indeed might be expected from the control over the money system acquired by the banking institutions, it is probably true to say that in Great Britain, 90 percent of trade and business has come into the possession or control of banking interests. Such a tremendous transfer of ownership has probably never occurred in recorded history.[17]May I make this point clear beyond all doubt? It is the claim to the ownership of money which is the core of the matter. **Any person or any organization who can create practically at will sums of money equivalent to the price values of all the goods produced by the community is the virtual owner of those goods, and, therefore, the claim of the banking system to the ownership of the money which it creates is a claim to the ownership of the country**.[18]

The Illegitimate Transfer of Control over Policy

[T]here is always a deficit of available purchasing power. This deficit has to be met to a greater or less extent, so that the process may go on; and the making up of the deficit by the creation of loans is, of course, the chief business of the banking system; it is the business by which ultimately the whole of every country – its industries, its loans, its institutions – (I am endeavouring to use the most conservative phrases) – must mathematically go into the control of the financial institutions, since they alone have the possibility of meeting these deficits in purchasing power which sooner or later must occur in every business relationship.[19]Now by a convention, the origin of which goes back into the mists of antiquity, a debtor is the servant of his creditor until his debt is repaid, and since the banking system is the origin of modern money and never gives money, but always lends it, and since under our modern money economy we are all of us obliged to have the use of money, we are quite indisputably all of us directly or indirectly the servants of the banks. ... I feel sure you will agree without further argument that money at the present time is our master, and not our servant.[20]Now it must be obvious that this process gives those in control of it absolute control of the economic situation, and what is perhaps of even greater importance, this control is fundamentally dependent on a scarcity of money, and consequently of purchasing power. Individuals must use economic products, and they can only obtain those economic products by the means of money. If they are short of money, terms on which they obtain money can be imposed upon them; if they are not

short of money those terms cannot be imposed. And it therefore follows that the existence of a money control necessitates a condition of economic scarcity, quite irrespective of the advances of scientific progress or productive capacity, and restricts economic production within the limits imposed by restricted money demand. [21]

Even so, Douglas did not focus his attention or the thrust of his reforming efforts on the question of usury because usury is not the root cause of the macro-economic gap between prices and incomes (N.B., the financing and accounting of real capital under existing conventions accounts for the bulk of the gap; profits derived from interest are merely an exacerbating factor) and the implementation of the Douglas Social Credit remedial measures are likely, all by themselves, to do away with much of the onerous, excessive, and/or exploitative conditions that are often associated with the charging of interest as it is currently practised.

Under the existing system, interest charges and other fees typically bear no linear connection to operating costs and are determined instead (within whatever regulations may have been imposed by a government or a central bank) by the forces of supply and demand, by what the market can bear. Since our money supply exists as an artificially scarce commodity, the creation of the vast majority of which is the monopoly of the private banking system, the market in bank credit can bear quite a bit and the resulting price that is charged for borrowing it is higher than it would be in a perfectly competitive market. The introduction of the Douglas Social Credit monetary reform would alter this dynamic in a number of crucial ways.[22]

As was recently explained by Wallace Klinck, all of the interest that is charged on the additional debt-money that is currently borrowed from private banks in the form of public, business, or consumer loans in order to bridge the recurring gap between prices and incomes (and which results in an ever-increasing mountain of societal debt that is, in the aggregate, unrepayable) is, from a Douglas Social Credit point of view, usurious by its very nature. The consuming public have a right in strict justice to the communal profit, i.e., the surplus of the consumer goods that the industrial economy yields over the consumer incomes that are distributed in the course of their production, without any conditions being imposed by the banking system or any other entity. We should be able to consume whatever we produce as a matter of course. If there is an inherent deficiency of consumer incomes with regard to what we produce, then the additional purchasing power necessary to achieve equilibrium should be automatically provided by the financial system in the form of money that is created free of debt or any other additional costs. In a Douglas Social Credit economy, this would be achieved by the National Dividend in conjunction with the compensated price. Hence it follows that if you eliminate the necessity for compensatory debts, you are eliminating *ipso facto* much of the long-term debt upon which compound interest (which increases exponentially over time) is currently charged. The Douglas Social Credit measures suspend the transfer of all of that wealth, privilege, and power over policy which the flow of compensatory debt-money renders possible ... a transfer which completely falls into the 'illegitimate' category and is therefore usurious.

So far so good. But, one may ask: what of the production loans that banks would continue to issue under Douglas Social Credit, especially long-term loans that may not be paid off for months or years? What kind of fees would the banks levy on such loans? Might 'usury' or the illegitimate transfer of purchasing power continue in a Douglas Social Credit economy unless some measures are explicitly taken to counteract the possibility?

In the first place, it should be noted that by keeping incomes and prices in perpetual balance, Douglas Social Credit would ensure that bank fees could never be onerous: whatever the banks charged there would always be sufficient consumer income to meet the corresponding fees. The only real concern, I think, is that bank fees on production loans may be excessive and, to that extent, exploitative. But what exactly would constitute 'excessive' charges in this case and what, if anything, should be done about it?

Apart from some vague statements that, under Douglas Social Credit, banks would charge 'an equitable sum' for certain services that they might render[23], I am not aware that Douglas addressed this particular issue in any thorough or rigorous manner.[24] Perhaps he believed that breaking the banks' monopoly on credit-creation would, more or less automatically, lower the price of bank credit towards the market's equilibrium point.

In any case, the suggestion that bank fees cannot or ought not to be determined by the free play of financial supply and demand (which would raise the price of loans to as high as the market can bear) but must be regulated so that profit is determined by turnover or volume is to be found in the writings of one of the most prominent of first-generation Douglas Social Crediters, Eric Butler:

As are all other businesses entitled to a profit for their services, so banks must be paid a reasonable remuneration for their administration of financial credit on behalf of the people. The cost of manufacturing bank credit is merely the amount of manpower, pens, ink and paper used [Butler is only dealing here with the cost of credit creation considered as an isolated operation, not with all of the many other legitimate costs which operating a bank involves – OH]. Even the London 'Economist' has suggested that a half per cent interest would be a liberal profit for the banks to make for the creation and administration of the people's financial credit. If limited to a maximum of a half per

cent interest charges, and if certain other principles of financial policy, which will be examined shortly, were applied, the profits of the banks would be governed by their turnover of business. Everyone with a knowledge of banking knows that there is no real competition in banking today, that bank amalgamation in every country have ensured an increasing and complete monopoly, and that this monopoly can only be broken by making banks directly responsible to the people as are other businesses. People must be in the position where they can penalise a bank not giving them the service they require by taking their business elsewhere. They must have an alternative. No bank will take another's business today. If there were only one bank, as the nationalisers desire, and that subjected to control by the people now controlling the banking system, or similar group, the people would be in an even more intolerable position than they are now.[25]

I don't know whether or not Butler's suggestion that interest rates should be capped at a half per cent is a reasonable one given current economic conditions. Banks incur many legitimate costs and, in a Douglas Social Credit system, would remain in private hands and be run for profit – provided that their profit stems from exclusively serving a public or national financial policy rather than a self-serving policy of pecuniary gain at any and all costs.[26] Banks must be able to levy sufficiently high charges in order to cover these costs and to make functionalist profit possible.

There is, however, another way in which bank fees on production loans could be determined in a Douglas Social Credit Commonwealth. This new and alternative proposal is inspired by the perennial teaching of the Catholic Church on usury and is, at one and the same time, in complete conformity with Douglas Social Credit principles. As a matter of fact, the position on usury which is held by the Church could be inferred on a purely Douglas Social Credit basis.

According to the 'fixed teaching on usury' which was promulgated by Benedict XIV in the 1745 papal encyclical *Vix Pervenit*: **http://www.papalencyclicals.net/Ben14/b14vixpe.htm** a position which claims for its authority both divine revelation and the testimony of human reason, the charging of interest on loans at any rate, or more broadly, the receipt of any amount of money over and above the sum lent, is intrinsically immoral if the basis upon which the claim is made is the loan contract itself.[27] In other words, and in complete accordance with statements made by previous ecumenical councils, earlier Popes, and the whole Christian tradition (up until the Protestant reformation), there is not, nor can there be, any intrinsic title or justification for "making money" on a loan. Unlike the renting of a physical good, such as a car, money does not lose part of its value or depreciate simply on account of its being used. However, and this is an important qualification which certain champions of the encyclical conveniently fail to either understand or to acknowledge, the encyclical simultaneously recognizes the legitimacy of extrinsic titles or justifications for receiving more than the sum that was lent. It does not specify what these extrinsic titles might be, but Church theologians have considered many possibilities: genuine risk, inflation, having to sacrifice one's own legitimate needs in order to make the loan, having to forego guaranteed profits or lucrative investments in order to make the loan, having to sell assets in order to make the loan, and business operations are all real costs on the basis of which one can legitimately claim compensation from the borrower. Similarly, if one's loan financed a productive undertaking, then it may rightly be regarded as an investment and a share in the profits (if there are profits) should be allocated to the lender. Within the context of an economy where prices and incomes were kept in an automatic and self-liquidating balance, receiving more money than was lent could only be considered usurious if what one received exceeded the extrinsic title in question and was therefore not proportionate to the claim.[28]

The basic justification for the Church's position as presented in *Vix Pervenit* is that the principle of equity requires that there be an equality between what is lent and what is returned in order to ensure that no one party is taking advantage of the other or profiting at the other's illegitimate expense. When one party gains more than the other from an exchange, the relationship is asymmetrical.

A concrete example should help to illustrate the injustice that is inherent in unbalanced exchanges. Assuming that production costs per pound are equal, if I give a pound of lettuce to a neighbouring farmer in the spring in exchange for a pound of carrots in the fall, then I should receive a pound of carrots from him in the fall in re-payment, not two or three pounds of carrots. The latter arrangement would qualify as an unequal and hence exploitative exchange. No one would agree to such terms unless he were forced to do so by circumstance. Now consider a monetary exchange involving the same values. If producing a pound of either carrots or lettuce costs one dollar, and I lend one dollar to the carrot farmer in the spring so that he can buy seed, I should, *ceteris paribus*, only receive one dollar back from him in the fall (or one pound of carrots) in repayment. If I insist, in the absence of any legitimate extrinsic title, on receiving two or three dollars in repayment, I am, in fact, asking for two or three pounds of carrots in exchange for having lent the monetary value of one pound of lettuce, a dollar that has only made the production of one pound of carrots possible. The exchange becomes unequal. Once again, no one would agree to such terms unless, practically speaking, he had

no other choice.

The observance of the principle of equity in monetary exchanges contributes to harmonious and balanced interactions between people living in society and is necessary for social stability. It is, in fact, an application of what later thinkers would refer to as the principle of capitalist justice: a flourishing economy requires that exchanges approach the ideal of being equally mutually beneficial. Thus, as it is defined by the Church, usury cannot be identified with the simple charging of interest as such, but rather with the charging of interest or the receipt of more money than was lent under conditions which render the financial exchange fundamentally unequal or exploitative.

Extrinsic title is certainly present in the case of banking. As previously noted, banks have and, under Douglas Social Credit would continue to have, legitimate costs which must ultimately be covered by consumers in the fees that the banks levy. If the banks offered their services for free, consumers would be taking advantage of the bankers. There would be no equality in the exchange. Similarly, if, on account of their business acumen, the banks are careful to finance only those enterprises that are profitable, that deliver what a properly financed body of consumers living in a Douglas Social Credit commonwealth really want, then it is entirely appropriate for them to be recompensed by sharing in the profits that their lending decisions have made possible.

Though not intended as such, the teaching of the Church is simply one concrete application of the fundamental principle that would lie behind any Douglas Social Credit style monetary reform: 'whatever we do in the financial realm should reflect, as accurately as possible, what is going on in the physical economic realm'. In the case of the Church's teaching, a mirroring or accurate reflection on the financial plane of the physical facts which accompany financial exchanges involving loans is insisted on in order to ensure that equality is maintained in the exchange. Douglas Social Credit goes one step further and says that the whole financial system (not just contracts involving loans) must embody the principles of honest accounting; i.e., the financial system must accurately reflect the facts of the physical economy if it is to fulfill its true purpose.

In other words, it seems to me that acceptance of one of the arch-principles of Douglas Social Credit theory, i.e., that finance should always mirror reality, logically implies acceptance of the substance of the Church's teaching regarding usury. Just as additions or subtractions to money should occur in accordance with additions or subtractions in the real credit if the financial credit is to be kept in harmony with the real credit, whenever money is lent what is returned should reflect or equal what is lent. An honest monetary system cannot admit dishonest profit, i.e., profit that cannot be justified in terms of either its nature or proportion on the basis of the relevant physical facts.

If finance accurately reflected reality in the realm of loan contracts, loans would be handled in this way: 1) if, in lending x number of dollars, the lender incurs a real cost, then the lender should be repaid the principal plus sufficient money to cover his legitimate costs to the extent of those costs; 2) if, in lending money to a business enterprise, that business yields a profit, it is entirely appropriate for the lender to receive an equitable share in the profits (as a fixed percentage agreed to at the time of the loan); and 3) if the lender's activities do not involve a loss or a gain, then, in order to ensure that finance maintains its reflection of reality, the lender should recover his principal – no more or less. In sum, losses in lending should be compensated, honest profits made from lending shared, and, in the absence of either loss or gain, only the principal should be returned. By following these guidelines, the financial credit would maintain its mirroring of the facts of the real credit. The last stipulation is the linchpin of the whole approach because it guarantees that money would never be treated as a commodity but merely as a neutral, informational tool. The underlying idea is that money ought never to be used to make more money without simultaneously contributing something to the flow of real goods and services. Allowing money to make money independently of the real economy makes a mockery of money's true purpose by preventing it from providing an accurate picture of the physical economic facts and causing it to deliver a distorted representation instead. There is, after all, no physical increase to parallel the increase in money that comes from lending money and demanding more in return merely on the basis of an alleged intrinsic title or justification.

Thus, it may be proposed that, in a Douglas Social Credit society, the standard fees that the private banks charge on production loans should be no more nor no less than what is necessary to cover their legitimate operating costs in providing said service. In principle, these fees may take the form of either interest or service fees – one can arrive at the same aggregate result regardless of the specific form that the fees assume – but, in my view, simple interest would be preferable over compound interest (since compound interest increases the fees exponentially over time, but there is no physical process to which this rate of increase in fees corresponds), while "service fees" would be psychologically and aesthetically preferable over "interest charges" since the former nomenclature makes it clear or reflects the fact that the banks are being paid for their book-keeping and other services and not for lending money as if it were a commodity. It may further be proposed that the banks obtain their profits by sharing in the risks of productive enterprises. That is, banks would be able to make a profit on their lending activities if and to the extent that

they are successful in advancing credit to productive organizations that are actually profitable. The banks would share in these profits (when there are profits) on some equitable basis that would be agreed to as part of the loan contract. In order to increase their aggregate profits, private banks would have to compete with others for a larger share of the producer market.

The foregoing position on the question of bank fees certainly represents a development of Douglas Social Credit theory, but I would argue that it is a development which is entirely organic in character.
I have merely made explicit what is implicit in the general Douglas Social Credit approach to financial and economic matters. Furthermore, I am convinced that this proposal or some other proposal along these lines, which is fair to all interested parties, would put the whole debate regarding usury, both within and outside of Douglas Social Credit circles,
to rest once and for all. ***

Notes: ****(Some quotes have been omitted due to space constraints)****

[1] Cf. John W. Hughes, *Major Douglas – The Policy of a Philosophy* (Edmonton, Alberta: Brightest Pebble Publishing, 2004), 3:

[2] One of the greatest difficulties in attempting to properly address the issue of usury lies in the fact that there are so many and by no means compatible definitions of 'usury' that have been put forward at different times by various thinkers. Usury has been identified with the charging of any rate of interest whatsoever on a loan, with the charging of exorbitant rates of interest on a loan, with the charging of interest on money created out of nothing (as opposed to the charging of interest on monies which the lender had legitimately earned), with the charging of interest on non-productive loans, such as loans for health care, education, or consumption generally (as opposed to productive loans, where the money lent is likely to generate a profit by financing business activities), and so forth.

[3] C.H. Douglas, *Warning Democracy*, 3rd ed. (London: Stanley Nott, 1935), 58.

[4] C.H. Douglas, *The Control and Distribution of Production* (London: Cecil Palmer, 1922), 28-29. That is, the banks administer the community's financial credit primarily for their own benefit at the expense of the individual (to the extent that they fail to serve the best interests of individuals in an optimal manner, the banks are operating at the individual's expense).

[5] C.H. Douglas, *The Breakdown of the Employment System* (Vancouver: The Institute of Economic Democracy, 1979), 7.

[6] C.H. Douglas, *The Monopoly of Credit*, 4th ed. (Sudbury, England: Bloomfield Books, 1979), 17.

[7] C.H. Douglas, *The Breakdown of the Employment System* (Vancouver: The Institute of Economic Democracy, 1979), 6.

[8] C.H. Douglas, *Economic Democracy*, 5th ed. (Sudbury, England: Bloomfield Books, 1974), 79.

[9] C.H. Douglas, "Money: An Historical Survey," The Fig Tree, no. 2 (September 1936): 146.

[10] C.H. Douglas, *Dictatorship by Taxation* (Vancouver: The Institute of Economic Democracy, 1978), 6-7.

[11] C.H. Douglas, *Warning Democracy*, 3rd ed. (London: Stanley Nott, 1935), 34. [emphasis mine].

[12] C.H. Douglas, *Major C.H. Douglas before the New Zealand Government's Monetary Committee* (Auckland: Dawson Printing Co. LTD., 1934), 12 [emphasis mine]. On page 13 of the same document Douglas clarified his statement by noting that "circumstances have put these organisations [i.e., the banks – OH] into a position in which, whether they have a conscious desire or not, they are in fact in the position of the recipients of unjustifiable wealth."

[13] C.H. Douglas,*The New and the Old Economics* (Sydney: Tidal Publications, 1973), 12-13.

[14] C.H. Douglas, *Dictatorship by Taxation* (Vancouver: The Institute of Economic Democracy, 1978), 11., 6. [emphasis mine] Cf. C.H. Douglas, *Money and the Price System* (Vancouver: The Institute of Economic Democracy, 1978), 7:

[15] C.H. Douglas, *Tyranny* (London: Douglas Social Credit Secretariat Ltd., 1936)

[16] C.H. Douglas, *Dictatorship by Taxation* (Vancouver: The Institute of Economic Democracy, 1978), 9.

[17] C.H. Douglas, *The Monopoly of Credit*, 4th ed.(Sudbury, England: Bloomfield Books, 1979), 73-74.

[18] C.H. Douglas, *Dictatorship by Taxation* (Vancouver: The Institute of Economic Democracy, 1978), 7.

[19] C.H. Douglas, *Money and the Price System* (Vancouver: The Institute of Economic Democracy, 1978), 8.

[20] C.H. Douglas, *Major C.H. Douglas Speaks* (Sydney: Douglas Douglas Social Credit Association, 1933), 59.

[21] Cf. C.H. Douglas, *Warning Democracy*, 3rd ed. (London: Stanley Nott, 1935), 99-100.

[22] Indeed, if usury is defined as dishonest profit, Douglas Social Credit would qualify as a 'usury-free' money system, but, it must not be forgotten that this anti-usury feature is not the main benefit or aim of a Douglas Social Credit monetary reform. Douglas Social Credit is so much more than a system that would disallow exploitative banking practices. It is, in fact, the monetary system which would finally enable the economy to fulfill its true purpose: the delivery of goods and services, as, when and where required, with the least amount of trouble to everyone. The focus of the Douglas Social Credit monetary reform is on maximizing individual benefit, not on merely eliminating certain evils of the existing system.

[23] In his 'Draft Douglas Social Credit Scheme for Scotland' Douglas stipulated that the banks should acquire sufficient credit to cover the cost of administering the price discounts to businesses *via* reasonable service fees: "The existing banks will be empowered to charge an equitable sum for the services thus rendered." C.H. Douglas, *Douglas Social Credit*, rev. ed. (New York: Gordon Press, 1973), 210.

[24] It may be that Douglas did in fact deal effectively with this question at some point in time. There are many addresses, articles, etc., which are recorded in the earliest Douglas Social Credit publications (*Douglas Social Credit*, *The Douglas Social Crediter*, *The Fig Tree*, etc.) which I have not yet read.

[25] Eric Butler, *The Truth about Douglas Social Credit* (Happy Valley: South Australia, 1993), 11. This proposal is quite similar to Douglas' idea that, as part of the compensated price mechanism, retail profits would have to be regulated (not fixed) to an agreed percentage on turnover. Cf. C.H. Douglas, *Major C.H. Douglas Speaks* (Sydney: Douglas Douglas Social Credit Association, 1933), [26] The reader will note that Douglas Social Credit is firmly opposed to nationalizing the banking system. Cf. C.H. Douglas, *Money and the Price System* (Vancouver: The Institute of Economic Democracy, 1978), 13: Cf. also, C.H. Douglas, *Dictatorship by Taxation* (Vancouver: The Institute of Economic Democracy, 1978), 7:
At one and the same time, however, it must be clearly understood that, under Douglas Social Credit, the private banks would not function as ordinary businesses which are exclusively concerned with maximizing profits. They would be recompensed in exchange for effectively serving a public policy. Cf., C.H. Douglas, *Major C.H. Douglas before the New Zealand Government's Monetary Committee* (Auckland: Dawson Printing Co. LTD., 1934), 15: Cf. also: C.H. Douglas, [27] Interestingly enough, this encyclical remains widely unknown in Catholic circles, and, in the pre-internet era, copies of it were very difficult to obtain.

[28] Since, under the current system, no direct attempt is made to compensate for the inherent sterility of money, i.e., the fact that lending money cannot, by itself, breed more money with which the interest charge might be paid (as many philosophers such as Aristotle, St. Thomas Aquinas, and Jacques Maritain have noted), it is doubtful whether, as a matter of fact (as opposed to principle), any and all extrinsic justifications could be sufficient, under existing conditions, to restore full equality to monetary exchanges.

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